UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/39(2)/20
17 February 1993

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Thirty-ninth session
Second part
Geneva, 15 March 1993
Item 7 of the provisional agenda

FOLLOW-UP TO THE DECISION OF THE TRADE AND DEVELOPMENT BOARD AT THE FIRST PART OF ITS THIRTY-NINTH SESSION (BOARD DECISION 399 (XXXIX) OF 9 OCTOBER 1992) ON THE ESTABLISHMENT OF AN AD HOC WORKING GROUP TO EXPLORE THE ISSUE OF STRUCTURAL ADJUSTMENT FOR THE TRANSITION TO DISARMAMENT

Report on the activities of the United Nations system in the area of structural adjustment for the transition to disarmament, prepared by the secretariat of UNCTAD in response to Trade and Development Board decision 399 (XXXIX), paragraph 2 (a)

I. INTRODUCTION AND SUMMARY

1. At the eighth session of the United Nations Conference on Trade and Development member States agreed, in paragraph 63 of the Cartagena Commitment, that UNCTAD should, in the light of its mandate, continue to address long-standing trade and development problems, as well as new and emerging issues in this field. One of those issues is structural adjustment for the transition to disarmament, including conversion of military capacities to civilian uses.

2. As stated in paragraph 24 of the Cartagena Commitment, "the relaxation of international tensions, including the easing of global strains, provides an incentive as well as opportunities for all countries to reduce military expenditures, as much as is compatible with legitimate security needs, and to divert resources from expenditures on armaments towards socially productive uses and generation of additional development finance. National initiatives

GE.93-50457 (E)

in this regard could produce cumulative effects by encouraging other countries to follow suit. The conversion of military capacities and technologies to civilian uses would also provide opportunities to adjust production structures to development priority needs and facilitate new trade, technological and financial flows."

3. The Conference further agreed, (ibid., para. 98) that "all countries should consider the possibilities that exist in their specific and individual situation for the reduction of military expenditures and for channelling the savings towards socially productive uses. The Conference welcomes reductions already under way or planned by developed countries and urges them to continue these efforts, in view of the importance which a decrease of military expenditures can have for the reduction of external and fiscal imbalances and for increased availability of development finance. The Conference urges developing countries to reduce military spending to the extent that it is excessive in their specific and individual situation, recognizing the positive effects that such a reduction can have on budgetary policies aimed at the acceleration of their growth and development."

4. It was in this context that member States agreed that "the intergovernmental machinery of UNCTAD, with the appropriate support from the secretariat, should explore the issue of structural adjustment for the transition to disarmament and the implications for world economic growth and development" and that "the economic aspects of conversion of military capacities to civilian uses should be also addressed" (ibid., paras. 99 and 63 (4) respectively).

5. Putting into effect the Cartagena Commitment, the Trade and Development Board, by its decision 399 (XXXIX) of 9 October 1992, established an Ad Hoc Working Group to explore the issue of structural adjustment for the transition to disarmament and requested the Secretary-General of UNCTAD, inter alia, to prepare a report on the activities in other United Nations organizations in this area and indicate where UNCTAD could best play a role. This report attempts to respond to this request.

6. The survey of activities of the United Nations organizations in the area of adjustment to disarmament reveals that, since the end of the cold war, these activities in general have been expanding, particularly as regards conversion of military capacities to civilian uses in economies in transition. The survey further reveals that there are some important gaps in the coverage of the complex and multifaceted issue of structural adjustment for the transition to disarmament, including conversion. Although its different aspects are dealt with by a number of United Nations organizations, those that have been working in this area on a programmatic basis appear to be mainly the United Nations Department of Economics and Social Development (UNDESD) and ILO.

7. UNDESD was the United Nations entity most deeply involved with the issue of conversion activities, which, to a large extent, originated from the work of the former Centre for Science and Technology for Development and resided in the Office of Legal Advisory Services for Development of UNDESD, which provided the secretariat for an Inter-Departmental Task Force on Conversion. In 1991-1992, UNDESD activities concentrated on convening meetings to

stimulate international cooperation for practical conversion initiatives. In early 1993 UNDESD was restructured into three departments, namely the Department for Policy Coordination and Sustainable Development; the Department for Economic and Social Information and Policy Analysis; and the Department for Development Support and Management Services. At the time of the writing of this report the restructuring of the United Nations secretariat in the economic and social fields was not completed. It appears, however, that the latter Department will continue the work previously conducted under UNDESD.

8. ILO has focused on analysing the labour implications of conversion processes, and there is a clear indication that the work will continue in this direction.

9. The World Bank, IMF and UNDP are involved in the broad area of economic reform, restructuring and adjustment, particularly of the economies in transition, where conversion has become an increasingly important issue.

10. UNIDO's work on conversion is mainly on a project-by-project basis, and concentrates on advisory services and technical assistance in concrete situations in the economies in transition.

11. UNIDIR, UNESCO and UNU have been working on some aspects of conversion and will most probably continue to do so.

12. Almost no substantive activities in the area of structural adjustment for the transition to disarmament, including conversion, have been undertaken in The International Trade Centre UNCTAD/GATT, WHO, UNRISD, UNITAR, IMO, and in most of the United Nations regional commissions.

13. The survey of the activities of the United Nations system on structural adjustment for the transition to disarmament, including conversion of military capacities to civilian uses, indicates that some aspects of these issues that fall within UNCTAD's mandate are not being addressed. UNCTAD could, in close cooperation with relevant international organizations both within and outside the United Nations system, complement their work by filling these gaps, particularly with regard to trade and development aspects of conversion and structural adjustment for the transition to disarmament.

14. The broad context and general guidance for this endeavour are provided by the Cartagena Commitment, which not only contains specific references to economic aspects of conversion and structural adjustment for the transition to disarmament but also defines UNCTAD's new functions and methods of work.

15. Against this background, UNCTAD could address the following major issues in its work in the area of structural adjustment for the transition to disarmament:

(a) <u>The global impacts</u> on trade and development of the adjustment to disarmament and the conversion of military capacities to civilian uses, particularly on the trade and development prospects of developing countries;

(b) The economic and social development policy issues and options connected with the disarmament and conversion process, as well as policy responses to the impacts of conversion;

(c) The connections and interactions between debt, trade, growth, military expenditures and sustainable development;

(d) Consensus-building on policies and measures at local, national, regional and global levels, regarding adjustment to the disarmament and conversion process, and engaging the relevant actors at every level, on the basis of the results of high-quality analysis referred to in items (a), (b) and (c) above.

16. In the context of the functions of UNCTAD, international cooperation in the area of adjustment to disarmament and conversion could benefit substantially from UNCTAD's contribution regarding: (i) policy analysis; (ii) intergovernmental deliberations, consensus-building and negotiations; (iii) monitoring, implementation and follow-up; (iv) technical cooperation.

17. The scope of activities which UNCTAD could consider in order to define its niche in international cooperation on structural adjustment for the transition to disarmament and conversion, in line with the Cartagena Commitment, would be: (i) knowledge generation; (ii) knowledge dissemination; (iii) consensus-building.

18. Playing a complementary role, within its mandate, in United Nations activities in the area of adjustment to disarmament and conversion, UNCTAD should, to the extent possible, draw on relevant activities of other organizations, including those of non-governmental actors.

II. SURVEY OF UNITED NATIONS SYSTEM ACTIVITIES

19. Pursuant to Trade and Development Board decision 399 (XXXIX), a letter dated 3 November 1992 was addressed to more than 20 bodies of the United Nations system by the Deputy Secretary-General of UNCTAD, requesting information on their activities in the area of structural adjustment for the transition to disarmament, including relevant decisions, reports and publications.

20. Official replies received from 16 organizations up to and including 15 January 1993, as well as information obtained through informal consultations and contacts with four other organizations*, are summarized below.

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* No information was obtained, officially or informally, from the following United Nations organizations: Economic Commission for Africa, International Civil Aviation Organization, and World Meteorological Organization.

United Nations Department of Economic and Social Development (UNDESD)

21. Activities concluded in 1991-1992 were as follows:

(a) International Conference on Peaceful Use of Military Industry and Technology, held in Beijing from 24 to 27 October 1991, co-organized by the China Association for the Peaceful Use of Military Industry and Technology and the former United Nations Centre for Science and Technology for Development (CSTD), with the participation of the former United Nations Department for Disarmament Affairs (UNDDA). A report was issued.

(b) International Conference on Conversion - Opportunities for Development and Environment, held in Dortmund from 24 to 27 February 1992, co-organized by the Ministry of Higher Education and Research of the State of North Rhine, Westphalia. The conference report was published.

(c) International Conference on Technology Assessment in Conversion for Development: Aerospace Technology, held in Moscow from 12 to 16 October 1992, organized by UNDESD, Division of Science, Technology, Energy, Environment and Natural Resources, and the Government of the Russian Federation, in collaboration with UNESCO and other United Nations bodies. A report is being prepared.

22. Activities under preparation include:

(a) 1993 Hong Kong Conference and Exhibition on International Cooperation to Promote Conversion from Military to Civilian Industry, to be held in Hong Kong from 5 to 11 July 1993, organized by the China Association for the Peaceful Use of Military Industrial Technology and the Office of Legal Advisory Services for Development of UNDESD. The proposed themes for the conference are: (i) enabling environment for conversion, namely the non-technical issues which are crucial to the success of conversion, such as competition versus market protection, taxation, incentives, management concepts, labour mobility, compensation policies, etc.; (ii) pragmatic approaches to conversion, including economic and social evaluations; (iii) specific sectors prone to conversion, such as electronics, process industries (materials, chemicals, etc.) and mechanical industries.

(b) Case-studies in China of conversion for sustainable development to document Chinese conversion experiences over the last 10 years. The project would include studying the feasibility of setting up an International Conversion Training Centre in China. The Office of Legal Advisory Services for Development of UNDESD has been in charge of this proposal.

(c) Analysis of the economic and social consequences of the arms race, to contribute to the report on the world social situation/world economic survey. This activity has been pursued by the former DIESA since 1985. Full chapters on these matters were featured in the 1985 and 1989 reports on the world social situation. Recently an interim report on the world social

situation covered the "peace dividend". A chapter on global aspects of reduction in military expenditures was included in the 1991 World Economic Survey. Furthermore, a chapter on the specific consequences for the developed market economies has been drafted for the 1992 Survey. The implementing unit was the UNDESD Division of Development, Policy and Analysis.

23. Activities in the planning stage include the following:

(a) As a follow-up to the Dortmund Conference, a meeting has been proposed on conversion issues of the Middle East, to be hosted by the Government of Egypt, in cooperation with UNDESD, in 1993.

(b) Another follow-up to the Dortmund Conference is the proposed worldwide conversion information exchange network of universities, to be located at the University of Dortmund, perhaps in combination with the establishment of an International Conversion Centre to be located in Bonn. This institution should be a "clearing house" for research activities, the exchange of information and training in the area of conversion, with the possible participation of UNESCO.

(c) Another possibility is a conference hosted by the State of Texas, in cooperation with UNDESD, on economic conversion or new opportunities for the defence industry, as an immediate follow-up to the Moscow meeting.

(d) Advisory and training services are planned at the Transnational Corporations and Management Division to assist the conversion process in the transitional economies.

(e) A cooperative programme between UNDESD and the Department of Political Affairs' Office of Disarmament Affairs on economic conversion is under preparation.

United Nations Industrial Development Organization (UNIDO)

24. UNIDO's approach to further work on conversion includes, inter alia, the following elements: the nature and types of conversion; data on the size of the military-industrial complex; the role of the economic system; the implications of the transition from a central to a market economy system in Central and Eastern Europe; the overall role of military industry; requirements for technical support in the conversion process; possible programme of technical co-operation; conversion as a task for developing countries; UNIDO's role in technical assistance for conversion; and the need for quick action.

25. Among proposals currently outstanding, it is worth mentioning UNIDO advisory assistance to facilitate conversion of a defence-oriented Russian enterprise into a design and manufacturing facility for wheelchairs; assistance for the restructuring of a predominantly military Polish manufacturer, via studies on company modernization plans and strengthening of local consulting capabilities.

United Nations Economic Commission for Europe (ECE)

26. The ECE secretariat has prepared a paper entitled "Defence conversion in economies in transition: the role of foreign capital" (TRADE/R.596), dated 9 November 1992, which defines two types of conversion, namely:
(i) switch to different types of products and technologies; and
(ii) adaptation of military products and technologies to civilian markets.
It discusses the magnitude of arms production and problems of conversion and further analyses the participation of foreign capital in conversion. Nevertheless, ECE has no plans for any further work on conversion.

United Nations Institute for Disarmament Research (UNIDIR)

27. UNIDIR work on conversion resulted from General Assembly resolution 45/62 G (para. 7) of 4 December 1990, which requested UNIDIR to prepare, "with the assistance of independent experts, a research report on the economic aspects of disarmament and to report to the General Assembly, through the Secretary-General, at its forty-seventh session" (1992). The First Committee approved, on 12 November 1992, the draft resolution on UNIDIR (A/C.1/47/L.30) welcoming the research report entitled "Economic aspects of disarmament: disarmament as an investment process" (A/47/346), dated 27 August 1992. UNIDIR plans for further work on conversion are not clear at this point.

International Labour Office (ILO)

28. The ILO Employment and Development Department is running a programme on disarmament and employment, which focuses on the employment consequences of defence industry conversion. A summary of past ILO activities in this field can be found in "Employment consequences of disarmament: ILO contribution to the defence conversion debate", a paper presented at the Conference on Conversion of Military Production: A Comparative Approach, organized by the Institute of Economics of the Slovak Academy of Sciences, Bratislava, 16-18 November 1992. Recently, ILO has commissioned two parallel studies on the employment impact of defence industry conversion after the end of the cold war in the United States and the former Soviet Union, which should be published in Spring 1993.

United Nations University (UNU)

29. A book, The Real New Europe or Actually Existing Europe: The Transition from Cold War Systems to What?, is to be published as a result of UNU/WIDER's research project. Another source on UNU's work on conversion is the proceedings of the Tokyo Conference on Arms Reduction and Economic Development in the Post Cold War Era, held in Tokyo, 4-6 November 1992. The future plans of UNU for work on conversion are unclear.

The World Bank

30. Chapter 3 of the World Bank report, "Adjustment lending and mobilization of private and public resources for growth", published in September 1992, discusses the issues of the level and composition of public expenditures as

they have affected the process of structural adjustment. One subsection discusses recent trends in military expenditures in adjustment-lending and non-adjustment-lending countries. The report points out that, given the Bank's charter, loan conditions cannot focus on the level of military spending. However, it stresses that there is a legitimate role for the Bank in examining overall public expenditures in relation to resource availability and ensuring that allocations for economic and social purposes are adequate. Thus, it appears that conversion will be examined by the Bank in the future in the broad context of economic readjustment.

International Monetary Fund (IMF)

31. A recent Economic Forum seminar, sponsored by the IMF Visitors' Center, on whether bilateral donors and multilateral agencies have the responsibility and the means to press countries that receive aid to reduce the level of their military expenditures, discussed IMF's approach to conversion, which has been to seek comprehensive data, including on military expenditures, in its regular consultation with all member countries. Where a country's level of, or changes in, military spending is large - with macroeconomic or structural implications - then IMF has addressed military spending the course of consultations under article IV.

32. Although IMF deals permanently with structural adjustment, it has no formal conversion programme. It addresses the issue indirectly, whenever defence conversion is an important element of a reform process, in the macro context of government budgets and in the structural perspective of unemployment, capital movements, etc.

United Nations Development Programme (UNDP)

33. UNDP appears to approach conversion via the World Bank-led consultative groups, such as the ones just created for nine republics of the Commonwealth of Independent States, including Kazakhstan, Kyrgyzstan, Uzbekistan and Azerbaijan, to be activated during 1993. Some recent UNDP projects also deal with conversion in a more or less direct way, for example the project entitled "Integration of ex-servicemen into productive activities in their respective communities", which was launched in Ethiopia in February 1992.

International Telecommunication Union (ITU)

34. ITU was invited, as an observer, to the Seminar on Military/Industrial Conversion, with the focus on the telecommunications sector, organized under the auspices of the OECD's Centre for Co-operation with European Economies in Transition and sponsored by the United Kingdom's "Know-how" Fund (Krasnoyarsk, Russian Federation, 24-25 March 1992). ITU is taking a reactive attitude to conversion, as a provider of technical expertise in the analysis of potential situations.

United Nations Educational, Scientific and Cultural Organization (UNESCO)

35. The activities of UNESCO on conversion are limited and occur under the "Science, Technology and Society Programme", including:

(a) Collaboration with the United Nations-led Conferences on conversion in Dortmund and Moscow;

(b) Study on "The management of science and technology in transition economies", prepared by outside experts. The study points out the need for a broader basis (versus sectoral) for conversion analysis. The role of universities in the development of a civilian research basis in the transition economies is emphasized; the study will be published in due course;

(c) The international conference on "Organizational Structures of Science in Europe", held in April 1992, and a series of seminars on the "brain drain" in Europe, including "the brain drain in modern Russia", all of which touched on the problem of conversion;

(d) Negotiations with the University of Dortmund for the implementation of market-oriented training courses for heads of Russian military industries;

(e) Negotiations with Yale University and the Massachusetts Institute of Technology, on a project to utilize the spare capacity of Russian satellites to support an international scientific network employing modern telecommunication technologies.

International Atomic Energy Agency (IAEA)

36. It appears that, although IAEA is not involved in any activities in the area of structural adjustment for the transition to disarmament at this point, there are plans to initiate conversion activities in the future.

United Nations Environment Programme (UNEP)

37. In an official reply to UNCTAD's request for information on activities in the area of structural adjustment for the transition to disarmament, UNEP pointed out that a report entitled "Disarmament, environment and development and their relevance to the least developed countries" had been prepared in 1991 in collaboration with UNIDIR.

Other organizations

38. Official replies indicating practically no activities in the area of structural adjustment for the transition to disarmament were obtained from eight United Nations organizations, namely: International Trade Centre UNCTAD/GATT, World Health Organization, United Nations Research Institute for Social Development, United Nations Institute for Training and Research, International Maritime Organization, Economic Commission for Latin America and the Caribbean, Economic and Social Commission for Asia and the Pacific, Economic and Social Commission for Western Asia.

39. It should be mentioned that different aspects of the issue of structural adjustment for the transition to disarmament, including conversion of military capacities to civilian uses, have been dealt with in several international organizations outside the United Nations system, for example in the Organisation for Economic Cooperation and Development (OECD) and its Centre for Co-operation with European Economies in Transition, the Stockholm International Peace Research Institute (SIPRI), the European Bank for Reconstruction and Development, and the International Chamber of Commerce. However, this report, as envisaged in paragraph 2(a) of Trade and Development Board decision 399 (XXXIX), is limited to the activities of the United Nations system organizations.

III. ROLE OF UNCTAD

40. Taking account of the relevant activities of organizations of the United Nations system, it appears that there is a complementary but important role for UNCTAD in the area of structural adjustment for the transition to disarmament, including economic aspects of conversion of military capacities into civilian uses. Broadly speaking, UNCTAD could, drawing upon the relevant work done elsewhere, contribute to filling some of the existing gaps, particularly with regard to trade and development aspects of adjustment to disarmament and conversion, inter alia by adding this new dimension to other areas of its activities.

41. In this context UNCTAD could consider addressing, mainly through its recently established Ad Hoc Working Group on adjustment to disarmament, the following major issues:

(a) The global impacts on trade and development of the adjustment to disarmament and the conversion of military capacities to civilian uses;

(b) The social and economic development policy issues and options connected with the conversion process, and the examination of the policy responses to the impacts of conversion;

(c) The connections and interactions between debt, trade, growth, military expenditures and the environment, which should be an area where UNCTAD could promote research to further the understanding of the complex conversion process. The controversial issue of the "peace dividend" would constitute a useful focus for such research;

(d) Stimulation of consensus-building on policies and measures, at local, national, regional and global levels, regarding adjustment to disarmament and conversion, and engaging the relevant actors at every level, based on the results of high-quality analysis referred to in items (a), (b) and (c) above, in line with the orientation of the Cartagena Commitment.

42. The scope of activities which UNCTAD could consider in addressing these four major issues would be:

(a) Knowledge generation: development of a statistical database relevant to adjustment to disarmament and economic aspects of conversion, in

particular in developing countries; instruments to assess costs and benefits of adjustment to disarmament; analysis of policy issues and options for conversion;

(b) Knowledge dissemination: promotion of the exchange of national experiences with conversion, in particular with regard to its trade and development aspects; provision of policy advice, technical cooperation and training in adjustment to disarmament;

(c) Contribution to the decision-making process: building policy consensus among actors in the conversion process via dialogues at the multilateral, regional, national and local levels; stimulating member States, on the basis of policy analysis, policy advice and a supportive climate for exchanges, interactions and cooperation, to consider taking the initiative in promoting orderly structural adjustment for the transition to disarmament.

43. UNCTAD activities to cover the above could include, inter alia, analytical reports, publications, meetings and discussion forums, advisory services and training.

44. The complexities of adjustment to disarmament and conversion can be approached from various angles. One of the advantages which UNCTAD offers in dealing with these issues is that its future work in this area in general, and the activities of the recently established Ad Hoc Working Group to explore the issue of structural adjustment for the transition to disarmament in particular, can benefit from the relevant knowledge generated by other Working Groups and Committees of UNCTAD. For example, UNCTAD work on transfer of technology, trade, financing, privatization, commodities, poverty alleviation, economic cooperation among developing countries, services and sustainable development can be tapped by the Working Group to explore different aspects of structural adjustment to disarmament and conversion of military capacities to civilian uses.

45. UNCTAD's work on adjustment to disarmament and conversion should also take account of, and benefit from, synergy and coordination within the United Nations system.

46. Mutually reinforcing contributions from a number of bodies in the United Nations system, especially if they are provided in a context of coordinated efforts, could be most helpful. UNCTAD could, for example, benefit from the work of the World Bank and IMF with regard to countries in which conversion is one element of structural adjustment. Similarly, UNDESD's promotion of international dialogue and cooperation for practical initiatives at the programme and project level, UNIDO's work on specific industrial conversion on a project-by-project basis, and ILO's work on the impact of conversion on employment could considerably enrich the work of UNCTAD in this area.

47. At the level of the United Nations system, there could be opportunities for utilizing existing coordination mechanisms in the system, such as the ACC machinery, to promote exchanges between interested agencies and to encourage

meaningful joint initiatives. But even outside the formal ACC mechanisms, there are ample opportunities for joint initiatives between like-minded agencies with complementary skills.

48. At the country level, the idea of inter-agency conversion initiatives, with the participation of the relevant United Nations system bodies, including UNCTAD, could be further explored, perhaps on the basis of existing mechanisms, such as the country consultative groups led by the World Bank or the UNDP Round Tables. Another possibility would be the utilization of the UNDP country programming process to address the issue of conversion in interested countries. Still another option, geared towards breaking established moulds, would be the launching of selected inter-agency conversion missions to interested member States to promote dialogues with national actors and find out what concrete and beneficial initiatives could be taken.

49. There are also good prospects for UNCTAD's cooperation with international organizations outside the United Nations system working on adjustment to disarmament and conversion - for example, the regional development banks, OECD and the International Chamber of Commerce - as well as with relevant research institutions and non-governmental organizations.

50. Although the disarmament dimension may be added to various areas of UNCTAD's activities, it appears that the bulk of its work in the area of structural adjustment for the transition to disarmament, including conversion, should take place within the Ad Hoc Working Group which was established by Board decision 399 (XXXIX) with a view to exploring in depth this relatively new and complex issue which has a bearing on trade and development.

51. Taking into account the availability of budgetary and extrabudgetary resources to the secretariat, as well as all relevant work done elsewhere, the Ad Hoc Working Group could become engaged, inter alia, in the following activities:

(a) Reviewing the experience of countries undergoing structural adjustment for the transition to disarmament, particularly the trade and development aspects of conversion of military capacities to civilian uses;

(b) Considering short- and long-term objectives of conversion processes, taking into account relevant factors, including the diversity of country situations, in order to promote greater efficiency in economic activities, more effective allocation of resources, and dynamism and competitiveness through restructuring of military enterprises and/or military industry sectors;

(c) Considering factors pertinent to the design and implementation of conversion programmes, such as, inter alia, overall development of the private sector; the role of the state, in particular in determining the framework for conversion and the scale and pace of the process; criteria for selecting enterprises to be converted; the relationship between conversion and other economic and social adjustment programmes such as poverty alleviation, enterprise development, privatization;

(d) Elaborating, as possible guidelines for policy-makers, basic trade and development elements for consideration in formulating conversion programmes and plans;

(e) Serving as a forum for the presentation of national programmes and plans for conversion, as well as for the exchange and dissemination of information on relevant national experiences.

52. More comprehensive and specific tasks for the Ad Hoc Working Group, as well as its terms of reference, should take into account the views of member States on this report, as envisaged by paragraph 2(d) of Trade and Development Board decision 399 (XXXIX).